



Building our communities one small business at a time...

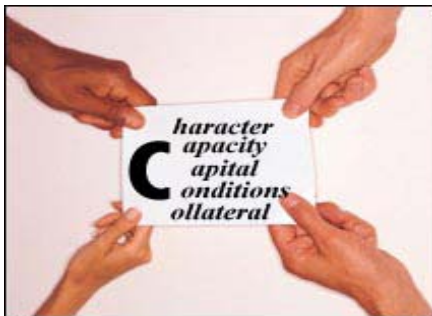
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U.S. Small Business Administration Business Information Center • 1951 Stella Lake Street Suite 5
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The 5 C's of credit

What they mean to your small business loan

By Terri Lonier and Lisa M. Aldisert



It's one of the most common questions among small business owners seeking financing: "What will the bank be looking for from me and my business?" While each lending situation is unique, many banks utilize some variation of evaluating the five C's of credit when making credit decisions: character, capacity, capital, conditions and collateral.

Character — What is the character of the management of the company? What is management's reputation in the industry and the community? Investors want to put their money with those who have impeccable credentials and references. The way you treat your employees and customers, the way you take responsibility, your timeliness in fulfilling your obligations — these are all part of the character question.

This is one of the reasons why the credit scoring process evolved, with a large component being our personal credit history.

Capacity — What is your company's borrowing history and track record of repayment? How much debt can your company handle? Will you be able to honor the obligation and repay the debt? There are numerous financial benchmarks, such as debt and liquidity ratios, that investors evaluate before advancing funds. Become familiar with the expected pattern in your industry. Some industries can take a higher debt load; others may operate with less liquidity.

Capital — How well-capitalized is your company? How much money have you invested in the business? Investors often want to see that you have a financial commitment and that you have put yourself at risk in the company. Both your company's financial statements and your personal credit are keys to the capital question. If the company is operating with a negative net worth, for example, will you be prepared to add more of your own money? How far will your personal resources support both you and the business as it is growing? If the company has not yet made profits, this may be offset by an excellent customer list and payment history. All of these issues intertwine, and you want to ensure that the bank perceives the business as solid.

Conditions — What are the current economic conditions and how does your company fit in? If your business is sensitive to economic downturns, for example, the bank wants a comfort level that you're managing productivity and expenses. What are the trends for your industry, and how does your company fit within them? Are there any economic or political hot potatoes that could negatively impact the growth of your business?

Collateral — While cash flow will nearly always be the primary source of repayment of a loan, bankers look at what they call the secondary source of repayment. Collateral represents assets that the company pledges as an alternate repayment source for the loan. Most collateral is in the form of hard assets, such as real estate and office or manufacturing equipment. Alternatively, your accounts receivable and inventory can be pledged as collateral.

Keep in mind that in evaluating the five C's of credit, investors don't give equal weight to each area. Lenders are cautious, and one weak area could offset all the other strengths you show. For example, if your industry is sensitive to economic swings, your company may have difficulty getting a loan during an economic downturn — even if all other factors are strong. And if you're not perceived as a person of character and integrity, there's little likelihood you'll receive a loan, no matter how good your financial statements may be. As you can see, lenders evaluate your company as a total package, which is often more than the sum of the parts. The biggest element, however, will always be you.

Mark Your Calendar...

Northern Nevada Lender Expo

Wednesday, September 24, 2003

5:30 – 8:00 p.m.

Boomtown Hotel & Casino

I-80 & Garson Road

Verdi, Nevada 89439

For additional information call

John Norton at (775) 784-4775.

Small Business Training Network



The Small Business Training Network is a customer-focused SBA strategy designed to enrich, educate and empower small businesses. It is an Internet-based learning environment - operating like a virtual campus - offering online courses, workshops, publications, information resources, learning tools and direct access to electronic counseling, and other forms of technical assistance.

The Training Network operates like an electronic umbrella under which many SBA and agency resource training programs are captured, aggregated, sorted by content and made available in multiple formats. It serves small business clients, agency resource partners, other federal agencies and global students of enterprise.

Many of the learning opportunities offered by the Network are developed by [cosponsors](#) (academic institutions and corporations), some are developed by SBA's resource partners and some are developed internally through agency contracts. All of the offerings are free, most are self-paced and the majority are considered "topical primers."

The Training Network is a vehicle for knowledge, an expansion of electronic government and an initiative designed to help small businesses successfully compete. It is most importantly, however, a balanced approach to training. Not all training can be effectively achieved or is best suited for an online environment. Therefore, in addition to a robust selection of online offerings, the Training Network serves as a window to all of the traditional, face-to-face technical assistance programs offered by the agency. Traditional training opportunities offered by SBA and its resource partners around the country can be easily identified by clicking on [National Training Events](#), or [Training Resource Partners](#).

FREE SMALL BUSINESS SEMINAR AND EXPO

Tuesday, September 9

1:00 to 4:00 p.m.

Gold Coast Hotel

Nevada Ballroom

4000 W. Flamingo Road

***How to Really Start Your Own Small
Business...What Everyone Should Know***

Topics:

* Feasibility/Planning *

* Budgeting *

* Technical Resources *

* Financing – Meet with Lenders in Expo Setting *

Free registration includes

300-page workbook!

To register, call: 388-6800

(Pete Peterson, SBA Veterans Business Development
Officer)

OR FAX TODAY TO 388-6469

Don't Miss

Throughout the month of October, the Business Information Center will air several 15 and 30 second advertisements on Cox Communication, Black Entertainment Television (BET) cable channel 27; and on Univision Spanish cable channel (KINC) TV-15; and Telefutara Spanish (non-cable) channel (KELV) TV-27.

For more information: Call 702-638-0853.

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SCORE®

Individuals who are in business or are interested in starting a business can use the SBA's Business Information Center (BIC) as often as they wish at no charge.

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FREE business counseling

FREE use of:

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1951 Stella Lake Street, Suite 5

(One block west of Martin Luther King, south of Lake Mead)

FYI...

As of July 31, 2003, the Small Business Administration Nevada District Office has approved 601 loans compared to 500 loans from last fiscal year 2002.